

Medicare Physician Reimbursement Issues & the Impact of Cost Shifting on Commercial Insurance Premiums

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Medicare reimbursement of physicians falls far short of the cost of producing services

■ MGMA National Practice Cost Study 1992-2000

- ✓ Total operating costs/physician rose 31.7%
- ✓ Physician Medicare payment increased only 13%
- ✓ Medicare payment increases covered 40% of actual cost increases

Medicare reimbursement of physicians falls far short of the cost of producing services

- Recent analysis at Marshfield Clinic demonstrated Clinic recovers approximately 70% of its costs in providing Part B services

Year	Medicare Revenue as a % of cost
2000	71.52
2001	70.59
2002	68.50

Why is physician payment different than others?

- Physician reimbursement is the only payment system under Medicare tied to Gross Domestic Product (GDP).
- The Sustainable Growth Rate (SGR) formula reduces fees to physicians as volume of services increase.

5.4% reduction in 2002!

Why is physician payment different than others?

■ Physician services are based on Resource Based Relative Value System (RBRVS)

- ✓ Wisconsin is a single fee locality with fee schedule paid at approximately 95% of the national average
- ✓ RBRVS tried to assure that all services were paid at the same relative cost rate, without assurance of payment adequacy (I.e., lose the same rate for all services)

■ RBRVS is not sensitive to:

- ✓ Aging of the population
- ✓ Increase in technology & advent of new services
- ✓ The shift of service focus from inpatient to outpatient

Why underpayment for physicians?

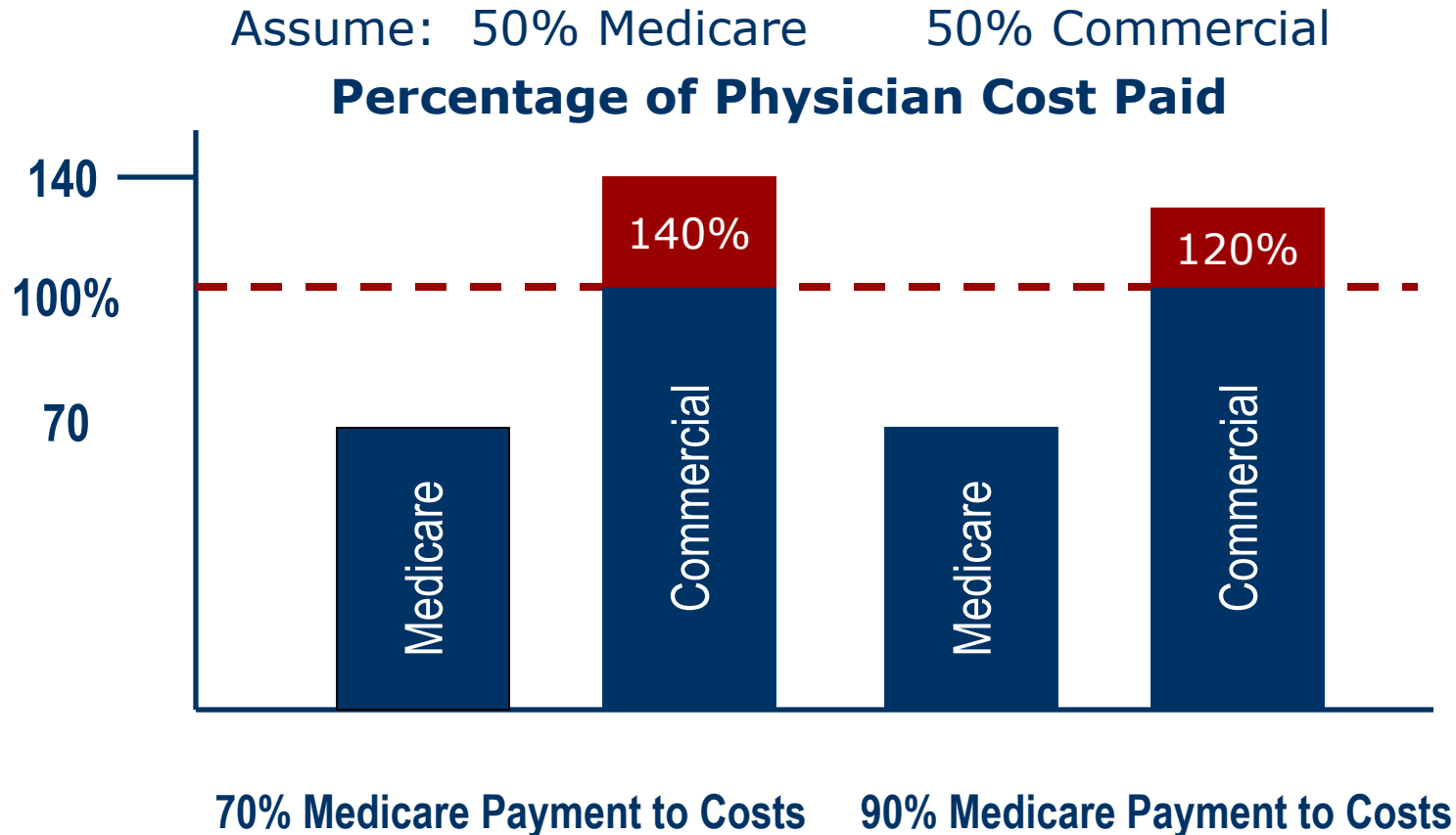
- Historic price freezes and price controls (Nixon era)
- Absolute limits on total physician payments
 - ✓ VPS – Volume Performance Standards
 - ✓ SGR – Sustainable Growth Rate

Even if Wisconsin physicians are conservative in practice and Florida physicians are not . . .

Everyone gets a lower update or cut.

Medicare payments for physician services are significantly below costs and are causing a large cost shift to the private sector

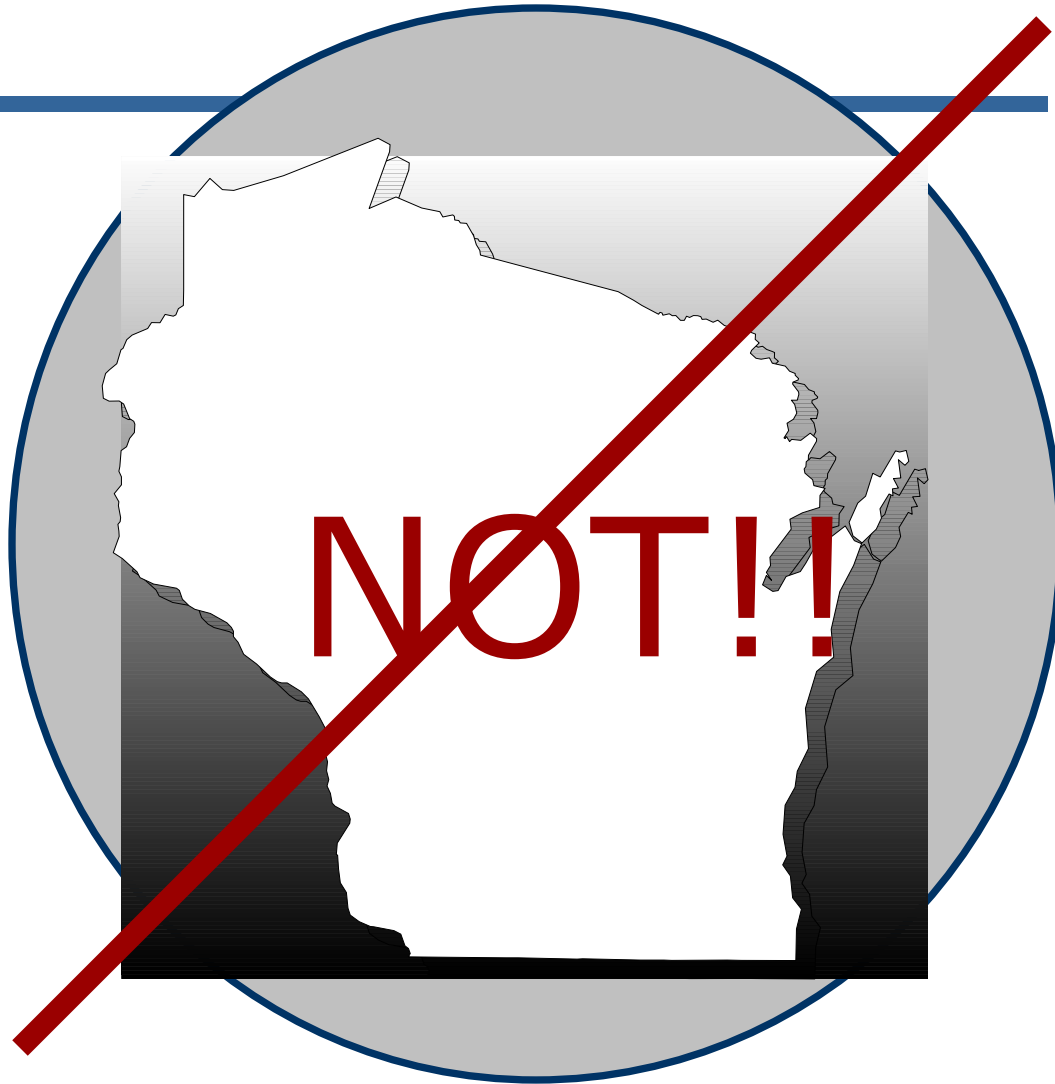
Inadequate Government Payment Leads to Higher Insurance Rates



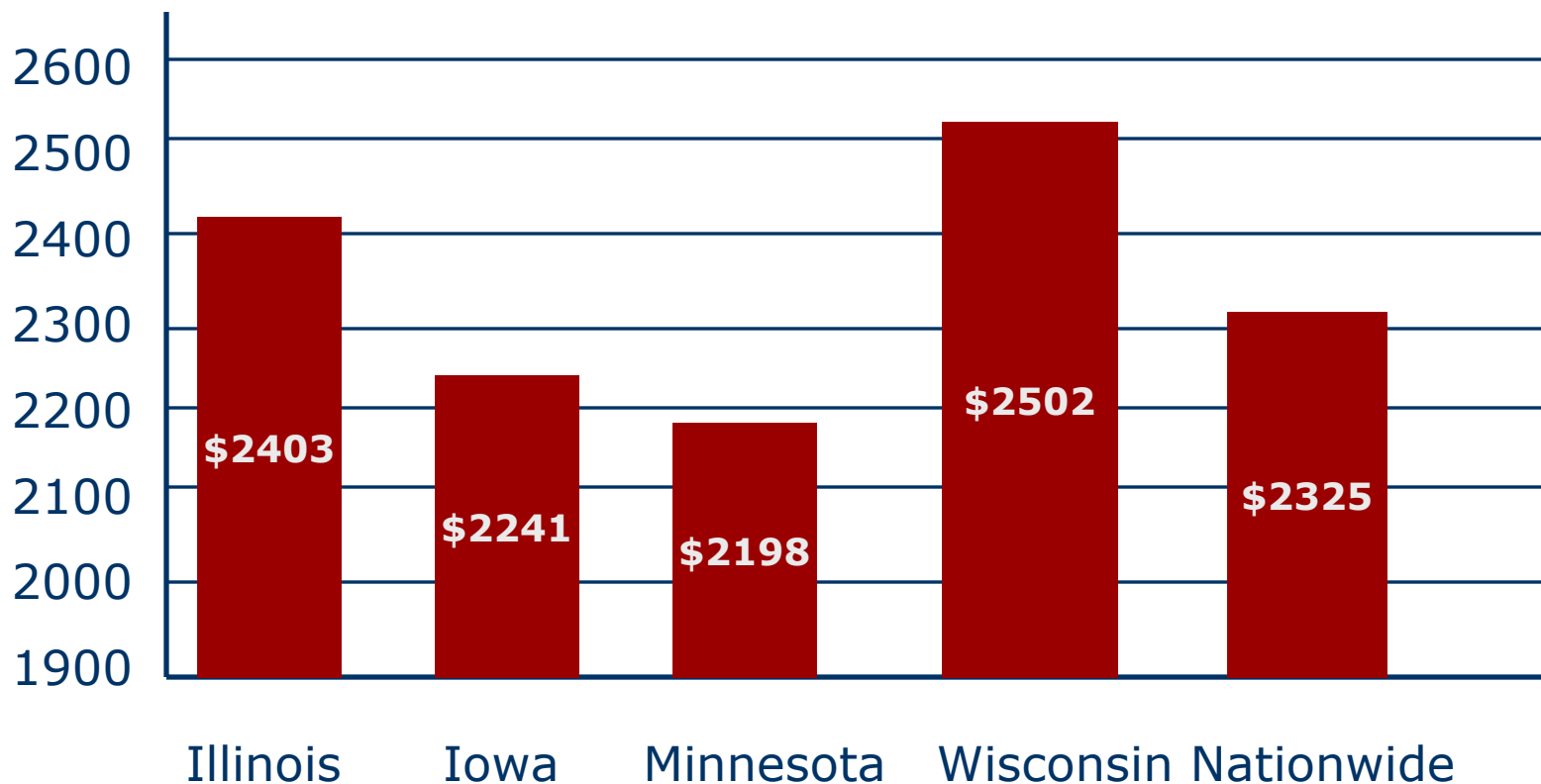
THE INSURANCE STORY



COMPETITIVE WISCONSIN

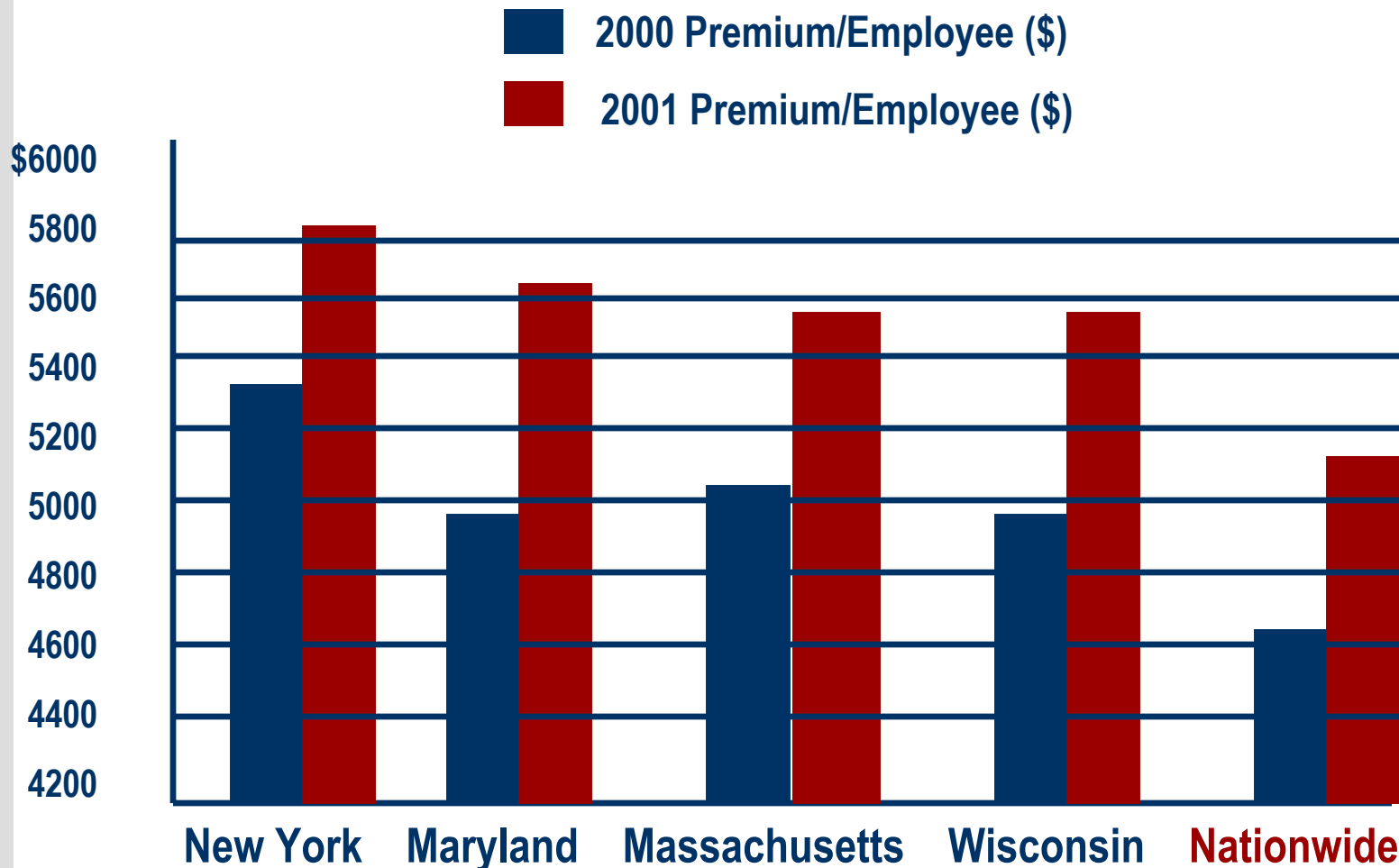


Average Annual Cost of Employment-Based Health Insurance - Single Coverage 1999



Source: Kaiser Study

Ranking of States by Health Care Costs per Employee per Year (does not include retirees)



Source: Mercer/Foster Higgins National Survey of Employer-Sponsored Health Plans

Milliman USA 2001 HMO Intercompany Rate Survey

	Rank	Total Manual Premium pmpm	%Wisconsin Over
North Carolina	1	\$216.54	
Wisconsin	2	214.46	
Florida	15	177.84	20.6
Louisiana	23	163.05	31.5
California	27	148.69	44.2

Health insurance was once
considered a “fringe benefit”



It ain't fringe no more

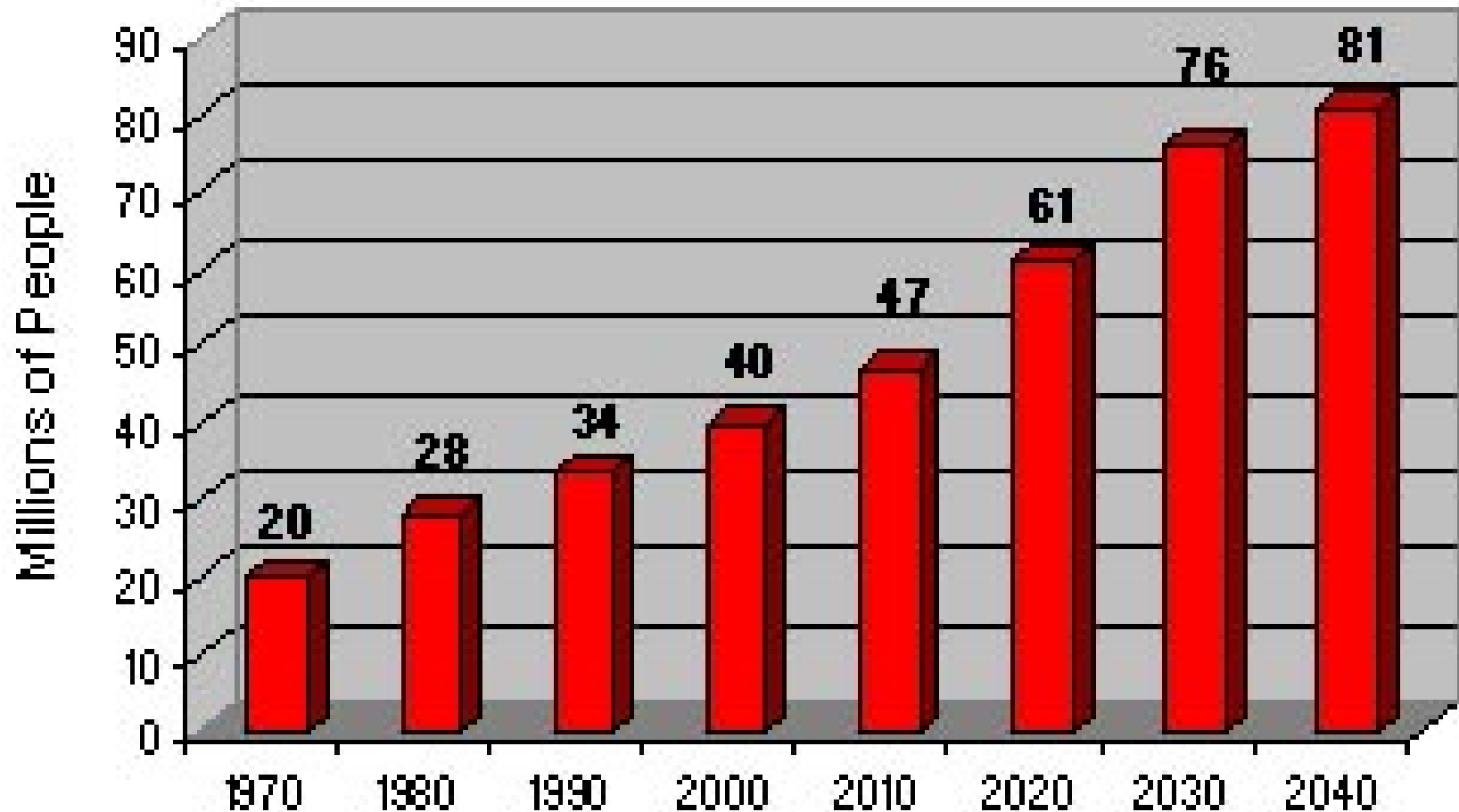
*Family health premiums
approaching \$10,000 per year*

Rural Areas Especially Hard Hit by Demographic Shifts



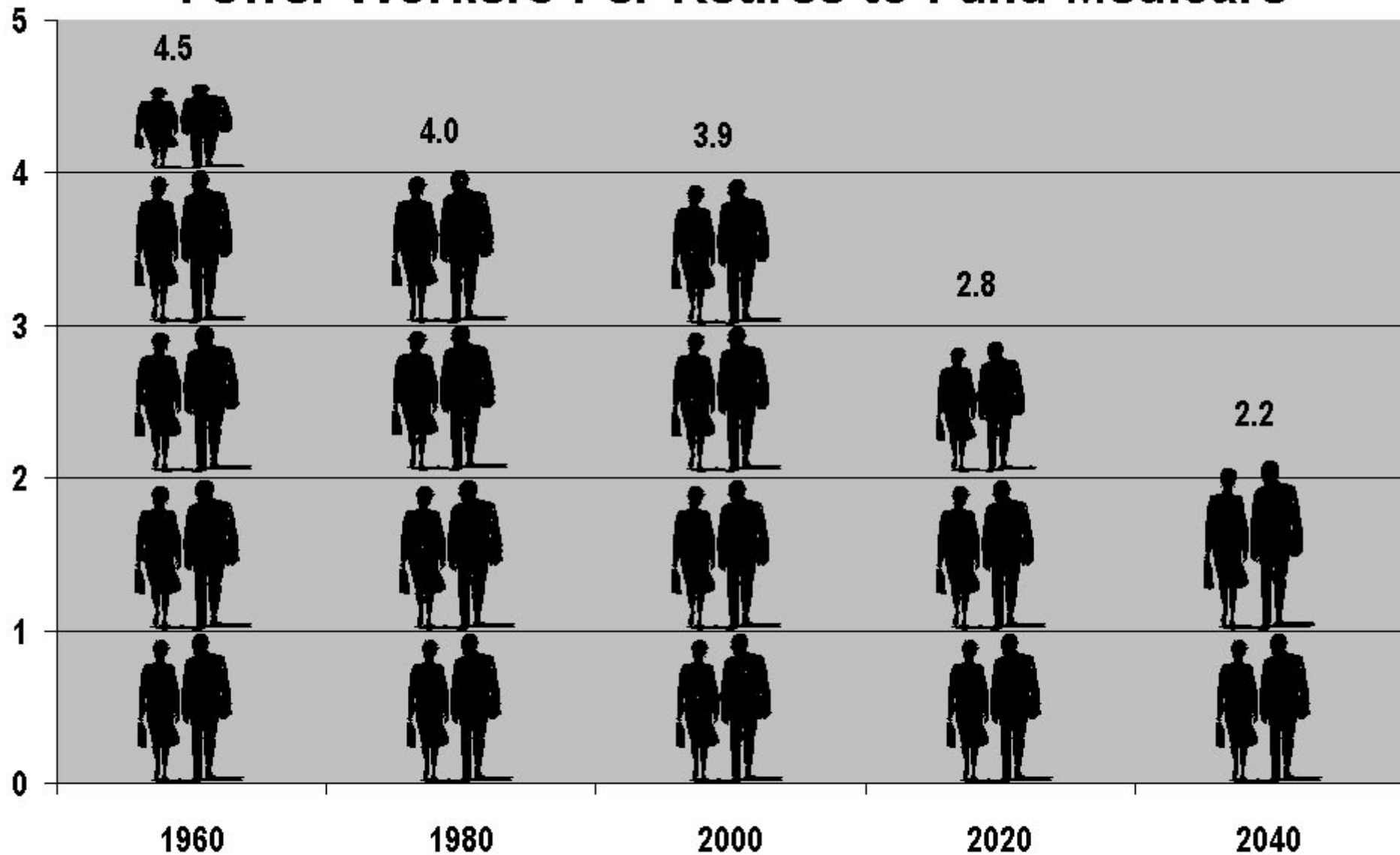
77 Million Baby Boomers to Enter Medicare

Medicare Enrollment Soars



Source: Health Care Financing Administration

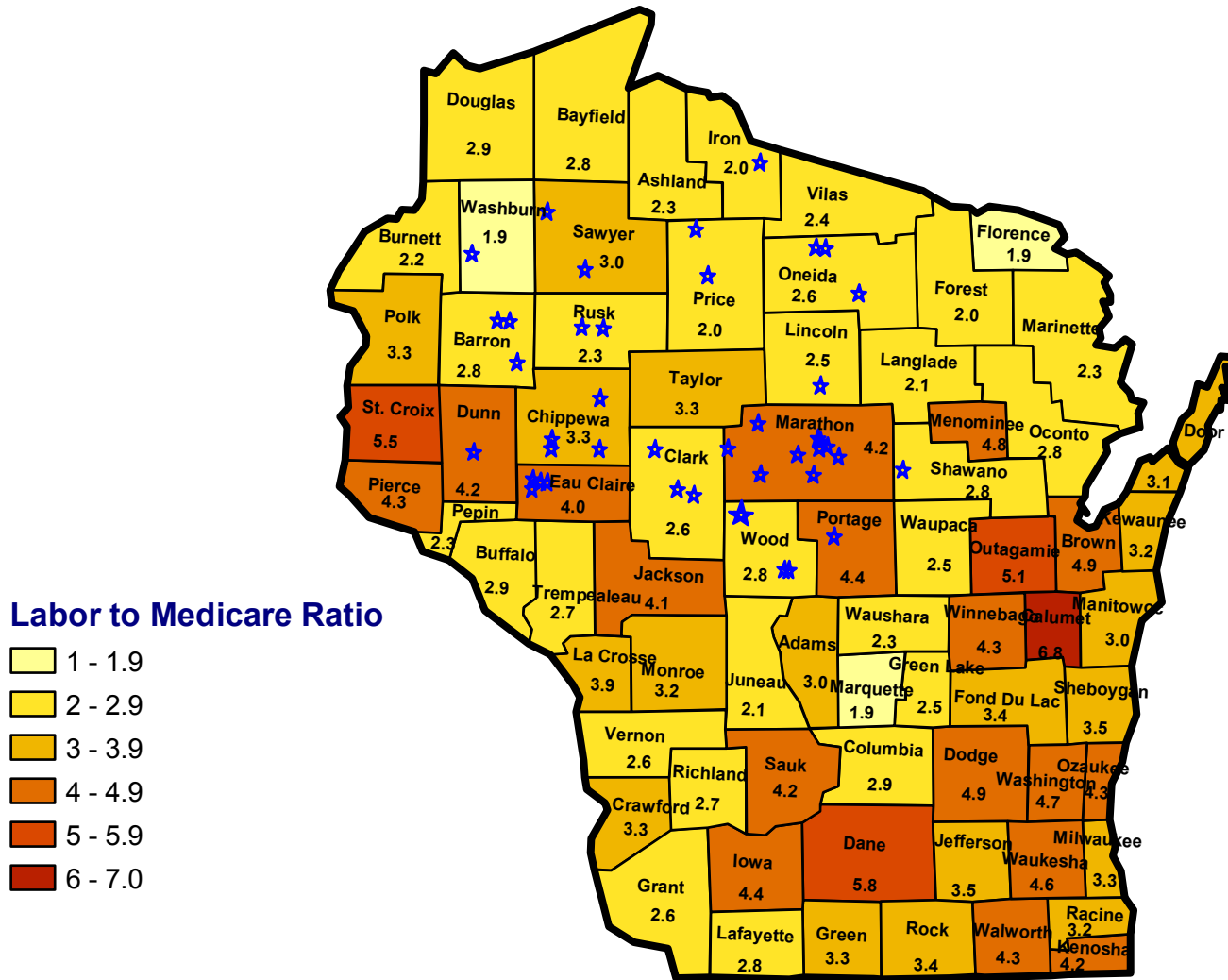
Fewer Workers Per Retiree to Fund Medicare



Source: Health Care Financing Administration

Labor to Medicare Ratio

Employed / Medicare Enrolled per County



Data Source - Labor Data: Wisconsin Dept of Workforce Development, July 1999.
 - Medicare Data: HCFA, Medicare County Enrollment as of July 1999
 Map provided by Systems & Processes.

How does cost shifting
affect insurance rates?

